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TABLE V.

PRICES OF UNITED STATES BANK BRANCH NOTES AT PHILADELPHIA.<sup>1</sup>

1818		1821	
September 7.....	1 d.	Boston and New Hampshire Branches.	
October 5.....	1 d.		
November 2.....	1 d.		
December 7.....	1 d.		
1819		1822	
January–February.....	1 d.	January–December.....	½d.
March–April.....	¾d.	Boston and New Hampshire Branches.	
May..... ½ to	¾d.		
June.....	¾d.		
July–December.....	½d.		
1820		1823	
January–December.....	½d.	January–February.....	½d.
Boston Branch.		March–May.....	½d.
September–October.....	4 d.	June–December.....	¼d.
November–December.....	2 d.	1824	
Middletown Branch.		January–June.....	¼d.
September–December.....	2 d.	July–September.....	par
1821		Oct.–Nov. . . small, par; large,	¼d.
January–December.....	½d.	December.....	par

## NOTE ON BRANCH DRAFTS OF THE BANK OF THE UNITED STATES.

SOMETHING further should be said about branch drafts of the Bank of the United States, there being considerable misunderstanding in connection with this subject both during the bank's existence and now.

Branch drafts were merely a substitute for branch notes. It was found impossible for the president and cashier of the bank to sign notes in sufficient quantity to supply the necessary circulation.<sup>2</sup> This want was particularly felt in the South and West.<sup>3</sup> The remedy was to have drafts drawn for \$5, \$10, and \$20 on the parent bank. These drafts were signed by the president and cashier of the branch, and made payable to the order of some officer of the branch. This officer then endorsed them,<sup>4</sup> which operation made them

<sup>1</sup> *Senate Document No. 457*, pp. 10-29, XXV Congress, second session.

<sup>2</sup> BIDDLE, *House Reports*, No. 460, p. 355, XXII Congress, first session.

<sup>3</sup> *Ibid.*, p. 56.

<sup>4</sup> *Ibid.*

transferable by delivery. Thereupon the draft circulated in precisely the same manner as a bank note.<sup>1</sup> Henceforth it was to all intents and purposes a bank note,<sup>2</sup> being no longer in any but a legal sense a draft. This fact must be kept constantly in mind. Unfortunately the name draft has led to a good deal of confusion in regard to the subject, it being difficult to discard once and for all the idea that these drafts were not drafts, but bank notes. The confusion has been increased by the fact that the bank, just as every other bank was accustomed to do, sold drafts to its customers, and this to a very considerable extent.<sup>3</sup>

It seems necessary to dwell upon these facts, because the one scholar who has written on this subject intelligently is to some extent mistaken as to the nature and the operation of the branch drafts. Professor Sumner, in his *History of Banking in the United States*, published in 1896, is certainly at fault in regard to this species of currency. Thus he evidently thinks that branch drafts as a device to take the place of notes were issued in 1818.<sup>4</sup> This is an error. But that he held it is seen by his remark that the refusal of Congress to permit the bank to have signers for its notes "led to the revival of the use of branch drafts."<sup>5</sup> Now 1827 was the first year that branch drafts had ever been issued, if the term "branch drafts" is used to mean a device for branch notes. If Professor Sumner means drafts merely (*i. e.*, the ordinary bank check) then drafts had been employed by the Bank of the United States and by many other banks ever since banks had existed in the United States.<sup>6</sup> Professor Sumner believes that the branch draft was responsible for most of the real trouble of the bank,<sup>7</sup> and this is probably why he has concluded that they existed in 1818. The bank was plunged into difficulties in the West in 1818-1820, and Professor Sumner charges this largely to the branch draft.<sup>8</sup> The "branch draft" had nothing whatever to do with these difficulties, for it did not exist. Professor Sumner's confusion of this species of bank note with the ordinary draft is seen again

<sup>1</sup> BIDDLE, *Senate Document No. 79*, XXII Congress, first session; *Senate Document No. 98*, p. 3, XXII Congress, first session; *House Reports*, No. 460, p. 355, XXII Congress, first session.

<sup>2</sup> The first issue of these notes was made in April 1827. (*House Reports*, No. 460, p. 56, XXII Congress, first session.) This emission was, however, soon called in because of the facility with which the drafts were counterfeited, and the bank did not issue the drafts again in any quantity until May 1829. (BIDDLE, *Senate Document No. 17*, p. 71, XXIII Congress, second session.)

<sup>3</sup> See *Senate Document No. 17*, p. 180, XXIII Congress, second session. The amount of drafts sold by the offices on one another in 1832 is here given as \$32,796,000, and of drafts on state banks as \$12,361,000.

<sup>4</sup> SUMNER, *Banking in the United States*, p. 95.

<sup>5</sup> *Ibid.*, p. 186.

<sup>6</sup> *House Reports*, No. 460, p. 51, XXII Congress, first session.

<sup>7</sup> SUMNER, *Banking in the United States*, p. 186.

<sup>8</sup> *Ibid.*, p. 95.

when he goes on to quote Gallatin in regard to the drafts.<sup>1</sup> In this quotation (Adams' *Gallatin's Works*, vol. iii. p. 265) Gallatin is speaking of the ordinary use of bank checks, and arguing that they are part of the circulation. That he is doing this is shown by his adding, "Though not usually included in the amount of the circulation of the bank, we cannot but consider the average amount in actual circulation as making part of the currency of the country." Now this sentence will not apply in the least to "branch drafts," which were always "included in the amount of the circulation," the bank itself always reporting them as part of the circulation, and in no other way whatever.<sup>2</sup> Gallatin's remarks are no doubt confusing, since he speaks of the "branch draft" at the beginning of the paragraph and does not clearly discriminate between the two when he goes on to discuss the ordinary bank check.

Professor Sumner, believing that the branch drafts were responsible for what are known as "racehorse bills" (*i. e.*, bills of exchange constantly renewed by the branches selling new bills on one another to cancel the old ones) apparently thinks that he has discovered the principal cause of the errors committed in the management of the bank under the presidency of Nicholas Biddle. Thus he says of the drafts: "They were a most unlucky invention. Most of the subsequent real troubles of the bank can be traced to them."<sup>3</sup> And again, "In all this tedious catalogue of charges we find nothing but frivolous complaint and ignorant criticism successfully refuted, except where we touch the branch drafts."<sup>4</sup> So in speaking of the embarrassments of 1832 he declares: "The position in which the bank found itself was a result of the working of the branch drafts. Their effect was just beginning to tell seriously, and it was cumulative in a high ratio."<sup>5</sup> On the same page he declares that the drafts "were transferring the capital of the bank to the western branches, and locking it up there in accommodation paper indefinitely extended by drawing and redrawing."

It is difficult to answer these charges, simply because it cannot be denied that the drafts had some connection with the embarrassment of the bank. The truth is that the bank made excessive loans in the West. The branch drafts, along with the buying of great quantities of bills of exchange, constituted the means by which this was done.<sup>6</sup> Hence the drafts were to some extent responsible. But their responsibility lay not in the inherent nature of branch drafts, for in that particular drafts and notes varied not a particle.

<sup>1</sup> SUMNER, *Banking in the United States*, p. 186.

<sup>2</sup> *House Reports*, No. 460, p. 56, XXII Congress, first session. *Senate Document No. 70*, p. 4, XXII Congress, first session.

<sup>3</sup> SUMNER, *Banking in the United States*, p. 186.

<sup>4</sup> *Ibid.*, p. 206.

<sup>5</sup> *Ibid.*, *loc cit.*

<sup>6</sup> *House Reports*, No. 460, p. 321, XXII Congress, first session.

Hence to speak as if branch drafts must in the nature of things lead to excesses and overtrading is misleading. That the bank could not collect at a time of great financial pressure because it had invested a great deal of capital in permanent loans is not a valid reason for condemning the means by which this was done, unless those means made such investments inevitable. This was in no sense the case with branch drafts. The truth is that in the circumstances of western trade and industry such investments would have been made in any case at the time. They happened to a much larger extent long before the branch drafts were known, and the losses of 1818-1820 were far in excess of any losses that were occasioned by the expansion of the thirties. The real difficulty lay in the composition of the western directories. These were made up entirely of men who were native to the locality, and who had no adequate knowledge of banking.

Professor Sumner, speaking of the charges against the bank in 1832 notes that one of these was the "expansion of the circulation by 1.3 millions between September 1, 1831, and April 1, 1832, although the discounts had been reduced during the winter." He adds, "the bank was struggling already with the branch drafts, and this struggle produced the facts which were alleged."<sup>1</sup> A careful examination shows that the facts alleged did not exist, and that therefore the reason given for them cannot be correct. The real state of affairs was as follows: In the time specified the circulation had increased 2.5 millions, almost double the amount cited by Professor Sumner. The discounts had not fallen off during the winter. On the contrary they had increased over 4.5 millions. On April 2 they were 4.4 millions greater than on the 2d of September 1831, and they had never been at as low a figure during the winter as they were in April. Moreover, the purchases of domestic exchange aggregated 7.6 millions more on the 2d of April 1832 than they had on the 2d of September 1831.<sup>2</sup> Surely an increase of 2.5 millions in the circulation was not too excessive in the face of an increase in loans of over 12 millions.

It is therefore only just to conclude that Professor Sumner is in some error as to the nature and operation of branch drafts.

R. C. H. C.

<sup>1</sup> P. 204.

<sup>2</sup> Monthly Reports in *Executive Document No. 523*, XXIII Congress, first session.